Report

of the

Examination of

Milwaukee Safeguard Insurance Company

Dallas, Texas

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 25, 2003

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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MILWAUKEE SAFEGUARD INSURANCE COMPANY
Dallas, Texas

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Milwaukee Safeguard Insurance Company ("Milwaukee Safeguard," or the "company") was conducted in 1997 as of December 31, 1996. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Milwaukee Safeguard Insurance Company is a Wisconsin domiciled stock property and casualty insurance company licensed under Chapter 611 of the Wisconsin Statutes. The company was incorporated on January 25, 1982 as a wholly owned subsidiary Milwaukee Insurance Company ("MIC", formerly known as Milwaukee Mutual Insurance Company), a Wisconsin domiciled stock property and casualty insurer.

Milwaukee Insurance Company also organized Milwaukee Casualty Insurance Co. ("Milwaukee Casualty", formerly known as Milwaukee Guardian Insurance Company) as a subsidiary insurer on September 28, 1973, and through year-end 1985 Milwaukee Insurance Company was the direct parent of Milwaukee Safeguard and Milwaukee Casualty. In 1985, Milwaukee Insurance Company established Milwaukee Insurance Holding Company, later renamed Milwaukee Insurance Group, Inc. ("MIG"), to serve as an intermediate holding company entity. Effective December 31, 1985, Milwaukee Insurance Company contributed 100% of its directly held insurance subsidiaries including Milwaukee Safeguard to Milwaukee Insurance Group, Inc. in exchange for 100% ownership of the issued and outstanding capital stock of MIG.

In November 1996, MIG issued additional shares of its common capital stock and conducted an initial public stock offering. Upon completion of the offering, approximately 65% of the common stock of MIG remained under the ownership of Milwaukee Insurance Company, and the remaining 35% was owned by public shareholders. Effective December 31, 1992, MIG acquired 100% of the capital stock of Alpha Property & Casualty Insurance Company ("Alpha P&C"), a Wisconsin domiciled property and casualty insurer. MIG conducted a second public offering of 1,000,000 newly issued shares of MIG common stock in 1993, resulting in the reduction of Milwaukee Insurance Company's ownership interest of MIG to approximately 49%.

Trinity Universal Insurance Company ("Trinity Universal") acquired all of the capital stock of MIG effective October 2, 1995. Trinity Universal is a Texas domiciled property and casualty insurer wholly owned by Unitrin, Inc. Upon the change of control of MIG to Trinity Universal, ownership and control of Milwaukee Casualty, Milwaukee Safeguard, and Alpha P&C transferred to Trinity Universal Insurance Company. MIG was dissolved in 2001 and its assets and liabilities were merged into Trinity Universal. Upon the dissolution of MIG, Milwaukee Safeguard became a directly held wholly owned subsidiary of Trinity Universal Insurance Company.

Milwaukee Safeguard does not have any employees, and all operating functions of the company are performed by affiliates within the Unitrin, Inc. holding company pursuant to numerous intercompany agreements. Trinity Universal and affiliates in the Unitrin, Inc. holding company conduct all of Milwaukee Safeguard's business operations, including insurance underwriting, marketing and policy issuance, claims administration and adjudication, investment management, and accounting and financial reporting. Further discussion of the Unitrin, Inc. holding company organization, description of the significant insurance affiliates of the company, and description of the company's affiliated agreements is included in the section of this report captioned "Affiliated Companies."

In 2001 the company wrote direct premium in the following states:

Minnesota	$17,724,020	93%
Wisconsin	301,348	2%
South Dakota	231,783	1%
Illinois	204,109	1%
Indiana	193,805	1%
All others	383,444	2%
	$19,038,509	100%

The company is licensed in 13 states, including the states of Arizona, Idaho, Illinois, Indiana, Iowa, Kentucky, Minnesota, Nebraska, New Mexico, North Dakota, Ohio, South Dakota, and Wisconsin.

The major products written by the company include standard risk automobile, homeowners, fire, commercial liability, workers compensation, and related insurance lines. The company's insurance policies are marketed by Trinity Universal Insurance Company through Trinity Universal's regional operations offices and independent agents. The company does not write sub-standard risks.

The following table is a summary of the net insurance premiums written by the company in 2001. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 23,098	$0	$ 23,098	$0
Allied lines	12,431		12,431	
Homeowners multiple peril	3,189,989		3,189,989	
Ocean marine	27,452		27,452	
Inland marine	218,358		218,358	
Earthquake	256		256	
Workers' compensation	38,782		38,782	
Other liability - occurrence	85,153		85,153	
Private passenger auto liability	8,961,049		8,961,049	
Auto physical damage	6,481,940		6,481,940	
Total All Lines	$19,038,508	$0	$19,038,508	$0

III. MANAGEMENT AND CONTROL

Board of Directors

The Milwaukee Safeguard board of directors consists of five members. Each director is elected annually by the company's sole shareholder to serve a one-year term. Each director of Milwaukee Safeguard is a senior executive officer of the parent holding company Unitrin, Inc., and also serves as a director on one or more boards of directors of other companies within the holding company. The board members receive no compensation for serving on the Milwaukee Safeguard board of directors.

. Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
David F. Bengston Woodstock, IL	Vice President Unitrin, Inc.	2003
Eric J. Draut Arlington Heights, IL	Executive Vice President, Chief Financial Officer and Director—Unitrin, Inc.	2003
Richard Roeske Naperville, IL	Vice President Unitrin, Inc.	2003
James A. Schulte Garland, TX	President—Unitrin Multi Lines Insurance	2003
Donald G. Southwell Wayne, IL	President, Chief Operating Officer and Director—Unitrin, Inc.	2003

Officers of the Company

The executive officers of the company are elected by the Milwaukee Safeguard board of directors at the board's annual meeting, and serve a one-year term of office. Each senior officer of the company also serves as a senior officer of other companies within the holding company organization. The company's senior executive officers serving at the time of this examination are as follows:

Name	Office	2001 Compensation
Donald G. Southwell	Chairman of the Board	$3,206
James A. Schulte	President	4,181
Clark H. Roberts	Vice President and Treasurer	1,623
George L. Himebauch	Secretary	1,055
William P. Fisanick ACAS, MAAA	Actuary	1,567

Annual employment compensation of the company's officers is paid by affiliate companies in the holding company. Unitrin, Inc. and Trinity Universal annually establish separate expense budgets whereby a portion of various operating expenses including officer compensation is allocated and charged to subsidiary operating companies. The compensation data reported above is the amount of the annual employment compensation paid to the company's officers that was charged to the company in 2001 through the annual budgetary allocation process.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Eric J. Draut
James A. Schulte
Donald G. Southwell

Investment Committee
Eric J. Draut
James A. Schulte
Donald G. Southwell

IV. AFFILIATED COMPANIES

Milwaukee Safeguard Insurance Company is a member of the Unitrin, Inc. holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates significant to the company follows the organizational chart.

Unitrin, Inc.
Organization Chart

- Unitrin, Inc.
  - Fireside Securities Corporation
    - Fireside Thrift Co.
  - Unitrin Services Company
  - Unitrin Direct Insurance Company
    - Unitrin Advantage Insurance Company
  - Trinity Universal Insurance Company
    - Alpha Property & Casualty Insurance Company
    - Milwaukee Casualty Insurance Co.
    - Milwaukee Safeguard Insurance Company
    - Financial Indemnity Company
    - Security National Insurance Company
    - Southern States General Agency, Inc.
      - Southern States Finance Corporation
    - Trinity Lloyd's Corporation
    - Trinity Lloyd's Insurance Company
    - Trinity Universal Insurance Company of Kansas, Inc.
    - Valley Group, Inc.
      - Charter Group, Inc.
        - Charter General Agency, Inc.
        - Charter Indemnity Company
        - NCM Management Corporation
      - Valley Property & Casualty Insurance Company
      - Valley Pacific, Inc.
      - Valley Insurance Company
  - Kemper Auto & Home Group, Inc.
    - Kemper Enterprise Agency, Inc.
    - Kemper Auto & Home Insurance Company
      - Unitrin Direct General Agency, Inc.
    - Kemper Independence Insurance Company
  - United Insurance Company of America
    - NationalCare Insurance Company
      - Reserve National Insurance Company
        - Summerset Marketing Company
          - National Association of Self-Employed Business Owners
          - Rural American Consumers A National Association
          - The National Association of Medicare Members, Inc
    - The Reliable Life Insurance Company
      - Clayton Reinsurance, LTD.
        - Clayton Reinsurance LTD (Bermuda)
      - Family Security Funerals Company
      - The Reliable Life Insurance Company of Texas
    - Union National Life Insurance Company
      - Union National Fire Insurance Company
    - United Casualty Insurance Company of America
  - One East Wacker Corporation
  - Unitrin Auto and Home Insurance Company
  - Unitrin Preferred Insurance Company
  - Unitrin Data Systems, Inc.
  - Unitrin Internal Audit Services, Inc.

Unitrin, Inc.

Unitrin, Inc. is a publicly traded holding company incorporated in the State of Delaware in February 1990. Unitrin, Inc., was established to hold all of the insurance and finance business subsidiaries of Teledyne, Inc., which spun off all of its remaining insurance and finance subsidiaries on April 20, 1990 through the distribution to its shareholders of the outstanding capital stock of Unitrin, Inc. Through its operating subsidiaries, Unitrin, Inc. offers property and casualty insurance, life and health insurance, and consumer finance products and services. Operations of the Unitrin, Inc. holding company are organized into five strategic business segments: Multi Line Insurance, Specialty Lines Insurance, Unitrin Direct, Life and Health Insurance, and Consumer Finance.

As of December 31, 2001, Unitrin, Inc.'s GAAP basis audited financial statements reported total assets of $7,133.7 million, total liabilities of $5,216.9 million, and total shareholders' equity of $1,916.8 million. Operations in 2001 provided reported net income of $380.9 million.

Unitrin Services Company ("Unitrin Services")

Unitrin Services Company provides senior executive management, administrative services, and computer services to all of the operating companies within the Unitrin, Inc. holding company. Services provided include executive management; investment management, analysis and accounting; financial accounting and reporting; tax accounting and tax return preparation; internal audit; financial planning; capital project evaluation; real estate management; and computer equipment and processing services. The costs of services rendered by Unitrin Services are allocated to its respective affiliates pursuant to general services agreements and computer services agreements established between Unitrin Services and its affiliates.

As of December 31, 2001, Unitrin Services's GAAP basis unaudited financial statements reported total assets of $26.7 million, total liabilities of $43.7 million, and total shareholders' equity of $(17) million. Operations in 2001 provided reported net loss of $1.6 million.

Trinity Universal Insurance Company ("Trinity Universal")

Trinity Universal Insurance Company is a multi-line insurance company organized under the laws of Texas in 1932 from the merger of Trinity Fire Insurance Company and Universal Automobile Insurance Company. Trinity Universal is the largest property and casualty insurance subsidiary of Unitrin, Inc., and is the holding company's leading insurer in the Multi Line Insurance business segment. Trinity Universal and its subsidiary insurers operate primarily in the Southern, Midwestern, and Western states, and offer preferred risk and standard risk automobile, homeowners, fire, commercial liability, workers compensation, and related insurance products. Trinity Universal is the immediate parent of three Wisconsin domiciled insurers, including Milwaukee Casualty Insurance Co., Milwaukee Safeguard Insurance Company, and Alpha Property & Casualty Insurance Company.

As of December 31, 2001, Trinity Universal's statutory basis audited financial statements reported total admitted assets of $1,955.5 million, total liabilities of $1,324.2 million, and surplus as regards policyholders of $631.2 million. Operations in 2001 provided reported net income of $285.7 million.

Valley Insurance Company ("VIC")

Valley Insurance Company is a property and casualty insurance company subsidiary of Trinity Universal Insurance Company, domiciled in the State of California. VIC provides multi-line property and casualty individual and business insurance coverages, marketing its products in the western United States through independent agents.

As of December 31, 2001, VIC's statutory basis audited financial statements reported total admitted assets of $32,5 million, total liabilities of $13.7 million, and surplus as regards policyholders of $18.8 million. Operations in 2001 provided reported net loss of $1.4 million.

Affiliated Agreements

1. Federal Income Tax Allocation Agreement – In 1996 a federal income tax allocation agreement was established between Unitrin, Inc. and various of its affiliates, including Milwaukee Casualty, Milwaukee Safeguard, and Alpha P&C. The agreement provides the basis for the method of settlement of federal income tax payments and refunds within the Unitrin, Inc. group. Unitrin, Inc. files a consolidated federal income tax return that includes the tax filings for the Unitrin, Inc. affiliates. Estimated quarterly federal income tax payments are paid to the IRS by Unitrin, Inc., and additional settlement with the IRS is made in the following year. The respective affiliates pay to Unitrin, Inc. the amount of regular income tax, alternative minimum tax, and environmental tax that the affiliates would otherwise have paid to the IRS on a separate-company basis. Each affiliate's federal income tax liability or refund is limited to the separate company basis, and final settlement of federal income tax amounts due between Unitrin, Inc. and the affiliates are made within thirty days of the filing of the Unitrin, Inc. tax return or within thirty days of receipt of refund associated with the Unitrin, Inc. return. The tax allocation agreement applies to tax years on or after December 31, 1995.

2. 1997 General Service Agreements – Effective January 1, 1997, separate general service agreements were established between Unitrin Services Company and Milwaukee Insurance Company, Milwaukee Casualty, Milwaukee Safeguard, and Alpha P&C. Under the agreements, Unitrin Services provides various operations services, including executive management, investment trade execution and investment accounting, financial accounting and reporting, tax accounting, risk management, internal audit, cash management and bank relations, financial planning, and legal support services. A portion of Unitrin Services' costs incurred in providing the services is allocated to each of the insurers on the basis of the hourly salary and employee benefits costs of the Unitrin Services employees who perform the services.

   In addition to the above agreements, an additional general service agreement was established effective January 1, 1997 between Milwaukee Insurance Company and Trinity Universal Insurance Company. The provisions of the agreement are identical to the Unitrin Services agreements described above except that the Trinity Universal agreement does not provide for investment trade execution and analysis, tax accounting or advice, or corporate secretarial services. Allocation of Trinity Universal incurred costs is based on the hourly salary and employment benefit costs of the Trinity Universal employees who provide the services, as well as all out-of-pocket expenses incurred by Trinity Universal. The general services agreements have a continuous term unless terminated by the respective parties upon not less than 30 days prior written notice.

3. 1997 Computer Services Agreements - Effective January 1, 1997, separate computer service agreements were established between Unitrin Services Company and Milwaukee Insurance Company, Milwaukee Casualty, Milwaukee Safeguard, and Alpha P&C. Under the agreements, Unitrin Services provides various computer processing and equipment services, including processing using Unitrin, Inc. systems at any of its data center facilities, and the use of systems including central processors and controllers, data storage devices and drives, data management software, network software, and other facilities. Unitrin Services's projected annual costs are allocated proportionately to the respective insurers based on projected usage by monthly invoices. At year-end Unitrin Services reconciles its budgeted costs and the insurer's projected usage with actual costs and usage, and the parties execute net settlement for the year ending. The computer services agreements have a continuous term unless terminated by the respective parties upon not less than 30 days prior written notice.

4. 2002 Administrative Services Agreement – Effective January 1, 2002, separate administrative services agreements were established between Valley Insurance Company, Trinity Universal Insurance Company, and Milwaukee Insurance Company, Milwaukee Casualty, Milwaukee Safeguard, and Alpha P&C. Under the agreements, VIC is responsible for the field service administration of all aspects of the Milwaukee insurers' policies serviced in the State of Oregon that are not performed by Trinity Universal. Services performed by VIC include regulatory filings, underwriting, settlement and payment of all claims, reporting to Trinity Universal and the Milwaukee insurers, and maintenance of statistical data. The agreement provides that VIC will invoice Trinity Universal and the Milwaukee insurers for the Milwaukee insurers' proportionate share of VIC's expenses incurred in providing the services. Payment for VIC services to the Milwaukee insurers is paid by Trinity Universal.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The company's reinsurance contracts contained proper insolvency provisions.

The company's reinsurance program consists of the following three types of reinsurance transactions: (1) affiliated Old Pool reinsurance for run-off business issued prior to 1995; (2) participation as a ceding insurer in external reinsurance treaties in which Trinity Universal is the lead ceding company; and (3) affiliated 100% quota share cession of the company's net retained liability to Trinity Universal Insurance Company.

Old Pool Reinsurance:

Prior to October 1, 1985, Milwaukee Insurance Company, Milwaukee Casualty, and Milwaukee Safeguard participated in a reinsurance pooling arrangement (the "Old Pool") whereby business acquired by Milwaukee Casualty and Milwaukee Safeguard was pooled with the business of MIC and the combined premiums and losses were prorated to the pool participants on a percentage of participation basis. Pursuant to the Old Pool, Milwaukee Insurance Company retained 40% of the pooled business, and ceded a 30% participation each to Milwaukee Casualty and Milwaukee Safeguard.

Effective October 1, 1995, the Old Pool agreement was terminated and a New Pool agreement was transacted whereby Milwaukee Safeguard served as the lead company in the pool agreement and had a 68% pool participation. In addition, from October 1, 1995 through December 31, 1996, Milwaukee Safeguard ceded its net underwriting results to Trinity Universal under a 41% quota share reinsurance agreement.

Effective January 1, 1997, the pool participants terminated and commuted the New Pool agreement and the existing affiliated quota share agreements and resumed the Old Pool reinsurance arrangement. Milwaukee Insurance Company presently retains 40% of the pooled business and cedes a 30% participation to Milwaukee Casualty and 30% to Milwaukee Safeguard. Milwaukee Casualty and Milwaukee Safeguard cede 100% of their net retained liability under the Old Pool to Trinity Universal, whereas Milwaukee Insurance Company retains 100% of its Old Pool participation. The Old Pool business is in run-off and the business volume is not material.

Effective January 1, 1997, Trinity Universal was appointed pool manager, but does not receive a fee for its management services. Trinity is reimbursed for pro rata share of costs incurred to settle liabilities of the Old Pool. Safeguard transferred approximately $63 million in assets, loss reserves, loss adjustment expense reserves and unearned premium to Trinity as of January 1, 1997.

External Ceded Reinsurance

The company participates under various Trinity Universal reinsurance treaties for the majority of customary reinsurance coverages so as to limit risk exposure due to large losses and catastrophic loss occurrence. The company's retention on its property and casualty business is $750,000 per occurrence except for auto, which is $100,000 per occurrence. The company's excess of loss on worker's compensation and employer's liability risks provides coverage of up to $4,000,000 in excess of company retention of $1,000,000 each accident, each employee. The group maintains property catastrophe reinsurance that is structured in three layers. The company's catastrophe treaties provide that the company retains $3,000,000 for each loss occurrence and is afforded 95% coverage of all losses in excess of the company's retention up to $55,000,000 of loss per loss occurrence. The reinsurers' liability limit for all loss occurrences in the contract period is $94,000,000. The group has an umbrella quota share agreement that cedes 90% of up to $1,000,000 policy aggregate and 100% of risk in excess of the policy aggregate. The principal participating reinsurers in the Trinity Universal group reinsurance policies are General Reinsurance Corporation, Swiss Reinsurance America Corporation, and Lloyds of London.

Affiliated Ceded Reinsurance

Effective January 1, 1997, Milwaukee Safeguard Insurance Company established a 100% quota share ceded reinsurance agreement with Trinity Universal. The agreement covers 100% of the net policy obligations incurred on all business written by Milwaukee Safeguard on or after January 1, 1997. Risks ceded by the company to Trinity Universal are net of all external third-party reinsurance cessions.

The 1997 agreement provides that Trinity Universal, on behalf Milwaukee Safeguard Insurance Company and in Milwaukee Safeguard's name, shall be responsible for the administration of all aspects of Milwaukee Safeguard's written policies. Subject to the general supervision of the Milwaukee Safeguard board of directors, Trinity Universal performs services including but not limited to handling of all regulatory filings, underwriting, accepting risks and issuing the policies, billing and collecting all premiums, paying all agents and broker's commissions, adjusting and paying all claims under the policies, reporting to Milwaukee Safeguard, compiling statistical data necessary for Milwaukee Safeguard to comply with all financial reporting and regulatory reporting requirements, and other services as are required by the reinsurance agreement service schedule.

Amendments to the treaty provide that Trinity Universal may delegate some or all of the administrative services for the Milwaukee Safeguard business to other affiliates within the Unitrin, Inc. holding company group.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Milwaukee Safeguard Insurance Company
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$9,380,987	$0	$9,380,987
Stocks:			
Common stocks	4,224		4,224
Cash	1,718,918		1,718,918
Federal and foreign income tax recoverable and interest thereon	809,327	271,272	538,055
Interest, dividends, and real estate income due and accrued	194,641		194,641
Receivable from parent, subsidiaries, and affiliates	48,861		48,861
Total Assets	$12,156,958	$271,272	$11,885,686

Milwaukee Safeguard Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Commissions payable, contingent commissions, and other similar charges	$ 5,873
Other expenses (excluding taxes, licenses, and fees)	823,296
Ceded reinsurance premiums payable (net of ceding commissions)	607,624
Amounts withheld or retained by company for account of others	6,944
Total Liabilities	1,443,737
Common capital stock	2,000,000
Gross paid in and contributed surplus	7,729,314
Unassigned funds (surplus)	712,635
Surplus as Regards Policyholders	10,441,949
Total Liabilities and Surplus	$11,885,686

Milwaukee Safeguard Insurance Company
Summary of Operations
For the Year 2001

Underwriting Income	
Premiums earned	$0
Deductions:	
Other underwriting expenses incurred	(107,560)
Total underwriting deductions	(107,560)
Net underwriting gain	107,560
Investment Income	
Net investment income earned	1,190,551
Net realized capital gains	422,125
Net investment gain	1,612,676
Net income before dividends to policyholders and before federal and foreign income taxes	1,720,236
Dividends to policyholders	0
Net income after dividends to policyholders but before federal and foreign income taxes	1,720,236
Federal and foreign income taxes incurred	594,560
Net Income	$1,125,676

Milwaukee Safeguard Insurance Company
Cash Flow
As of December 31, 2001

Premiums collected net of reinsurance	$(501,182)		
Underwriting expenses paid	(72,694)		
Cash from underwriting		$(428,488)	
Investment income (net of investment expense)		1,621,987	
Other income (expenses):			
Net amount withheld or retained for account of others	6,944		
Total other income		6,944	
Net cash from operations			$1,200,443
Proceeds from investments sold, matured, or repaid:			
Bonds	21,962,777		
Stocks	5,227		
Total investment proceeds		21,968,004	
Cost of investments acquired (long-term only):			
Bonds	2,490,625		
Total investments acquired		2,490,625	
Net cash from investments			19,477,379
Cash applied for financing and miscellaneous uses:			
Dividends to stockholders paid	25,000,000		
Net transfers to affiliates	331,177		
Other applications	(4,224)		
Total		(25,326,953)	
Net cash from financing and miscellaneous sources			(25,326,953)
Net change in cash and short-term investments			(4,649,131)
Reconciliation			
Cash and short-term investments, December 31, 2000			6,368,048
Cash and short-term investments, December 31, 2001			$1,718,917

Milwaukee Safeguard Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets	$11,296,970	
Less liabilities	849,232	
Adjusted surplus		$10,447,738
Compulsory surplus		0
Compulsory surplus excess (or deficit)		$10,447,738
Adjusted surplus (from above)		$10,447,738
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)	0	
Security surplus excess (or deficit)		$10,447,738

Milwaukee Safeguard Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	$22,846,801	$27,830,054	$30,170,427	$31,512,544	$34,314,063
Net income	4,409,288	2,343,776	1,303,988	2,793,520	1,125,676
Net unrealized capital gains or (losses)	33,050				4,224
Change in net deferred income tax					(13,427)
Change in non-admitted assets	580,957	1,784	900		(271,272)
Change in provision for reinsurance				8,000	
Change in excess of statutory reserves over statement reserves	(40,042)	(5,187)	37,229		
Cumulative effect of changes in accounting principles					282,684
Dividends to stockholders					(25,000,000)
Surplus, end of year	$27,830,054	$30,170,427	$31,512,544	$34,314,063	$10,441,948

Milwaukee Safeguard Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios is included following the table of IRIS ratios.

	Ratio	1997	1998	1999	2000	2001
#1	Gross Premium to Surplus	59%	59%	62%	55%	182%
#2	Net Premium to Surplus	0%	0%	0%	0%	0%
#3	Change in Net Writings	-99%*	0%	0%	0%	0%
#4	Surplus Aid to Surplus	0%	0%	0%	0%	0%
#5	Two-Year Overall Operating Ratio	105%*	0%	0%	0%	0%
#6	Investment Yield	4.%*	6%	5.9%	7.4%	5.2%
#7	Change in Surplus	20%	8%	4%	9%	-70%
#8	Liabilities to Liquid Assets	12%	21%	5%	6%	13%
#9	Agents' Balances to Surplus	0%	0%	0%	0%	0%
#10	One-Year Reserve Devel. to Surplus	0%	0%	0%	0%	0%
#11	Two-Year Reserve Devel. to Surplus	-8%	0%	0%	0%	0%
#12	Estimated Current Reserve Def. To Surplus	0%	0%	0%	0%	0%

The exceptional results in 1997 for IRIS ratios number 3, change in writings, number 5, two-year overall operating ratio, and number 6, investment yield, were due to the company initiating a 100% ceded quota share treaty with its parent, Trinity Universal Insurance Company, effective January 1, 1997. The 1997 cession of 100% of the company's written insurance liabilities reduced net writings to zero, and caused the two-year operating ratio to increase relative to 1996 due to the 1997 cession of all premiums related revenues and expenses. The 1997 transfer of assets that were related to the insurance risks ceded in 1997 significantly decreased company invested assets relative to 1996 and resulted in a decreased investment yield ratio.

The unusual 2001 result for ratio number 7, change in surplus, was due to the company's payment of an extraordinary dividend of $25 million to its parent in 2001. Payment of the extraordinary dividend was approved in advance by the Commissioner of Insurance.

Growth of Milwaukee Safeguard Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1997	$29,746,241	$1,916,188	$27,830,053	$4,409,288
1998	35,174,820	5,004,393	30,170,427	2,343,776
1999	32,637,999	1,125,457	31,512,543	1,303,988
2000	35,460,413	1,146,351	34,314,063	2,793,519
2001	11,885,686	1,443,737	10,441,949	1,125,676

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1997	$16,549,537	$(18,859,402)	$0	0.0%	0.0%	0.0%
1998	17,764,280	0	0	0.0%	0.0%	0.0%
1999	19,689,144	0	0	0.0%	0.0%	0.0%
2000	18,938,703	0	0	0.0%	0.0%	0.0%
2001	19,038,508	0	0	0.0%	0.0%	0.0%

During the period under examination the company has realized annual net income derived from investment income. Surplus decreased in 2001 due to the company's payment of a $25 million extraordinary dividend to its parent. Effective January 1, 1997, the company became party to a quota share reinsurance treaty whereby the company cedes 100% of its net retained liability its on gross premium written to its parent, Trinity Universal Insurance Company, and the company does not have any net retained liability for insurance risks.

Reconciliation of Surplus per Examination

The examination did not make any reclassification of or adjustment to year-end balances reported by the company. The company's surplus as regards policyholders as of December 31, 2001 was $10,441,949.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were nine specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company file biographical data on each member of the board with the Commissioner's office in accordance with s. Ins 6.52 (3), Wis. Adm. Code.

   Action—Compliance.

2. Invested Assets - Bonds & Stocks—It is recommended that the company review its Schedule D - Part 1 and Part 2 to ensure that these reflect the correct CUSIP numbers reported, as required by the NAIC Annual Statement Instructions Property and Casualty and Purposes & Procedures Manual of the NAIC Security Valuation Office.

   Action—Compliance.

3. Affiliated Payables/Receivables—It is recommended that the company perform timely settlement of its affiliated balances in accordance with the settlement terms and provisions established by its intercompany service agreements.

   Action—Compliance.

4. Affiliated Payables/Receivables—It is recommended that the company record reinsurance transactions in accordance with the NAIC Annual Statement Instructions Property and Casualty.

   Action—Compliance.

5. Contingent Commissions—It is recommended that the company properly report other amounts due to reinsurers in Schedule F-Part 3, column 12, pursuant to the NAIC Annual Statement Instructions Property and Casualty.

   Action—Compliance.

6. Contingent Commissions—It is recommended that the company follow the instructions for "Notes to Financial Statements" in accordance with the NAIC Annual Statement Instructions Property and Casualty.

   Action—Compliance.

7. Agents' Balances or Uncollected Premiums—It is recommended that the company report the additional reinsurance premium due under any reinsurance agreement, which includes a retrospective premium provision, on line 10.3 of the Assets page of the NAIC convention annual statement pursuant to the NAIC Annual Statement Instructions Property and Casualty.

   Action—Compliance.

8. Reinsurance - Schedule F—It is recommended that the company report Lloyds syndicates individually in Schedule F-Part 3, in accordance with the NAIC Annual Statement Instructions Property and Casualty.

   Action—Compliance.

9. Reinsurance - Schedule F—It is recommended that the company follow the instructions for Schedule F of the NAIC Annual Statement Instructions Property and Casualty with respect to identification of insurers.

   Action—Compliance.

Summary of Current Examination Results

Custody of Invested Assets

The company's invested assets are held in the custody of a trust bank under an appropriate custodial agreement. However, the safekeeping agreement does not have adequate provisions with regard to the fiduciary responsibility of the custodian. The agreement provides that the custodian's liability for loss to the company is limited to loss arising out of custodian negligence or willful misconduct.

The safekeeping agreement is inadequate in that it fails to provide explicit provisions regarding the duties of the custodian. An insurer's custodian agreements should specify the circumstances of loss and the indemnification requirements that apply to the custodian's obligation to indemnify the insurer for loss of assets held in the safekeeping account. It is recommended that the company's custodial agreements be amended to expressly provide for the fiduciary obligations of the custodian and the custodian's specific obligations to indemnify the company, in conformity with the custodial agreement guidance provided by the NAIC Examiner's Handbook.

Annual Statement Schedule D Reporting

Review of the company's reported annual statement Schedule D noted that some of the securities listed in Schedule D had matured or had been sold or otherwise disposed of, and were no longer reported in the account statements of the company's custodian. It is recommended that the preparation of Schedule D include deletion of securities which have matured, sold, or otherwise disposed of, so as to ensure correct identification of the securities that are owned by the company and to eliminate securities that are no longer owned by the company, in compliance with NAIC Annual Statement Instructions—Property and Casualty.

VIII. CONCLUSION

Milwaukee Safeguard Insurance Company is a Wisconsin domiciled stock property and casualty insurance company. The company was originally a directly owned subsidiary of Milwaukee Insurance Company. Milwaukee Insurance Company contributed all of the capital stock of the company to the MIC holding company subsidiary Milwaukee Insurance Group, Inc. in 1985. Effective October 2, 1995, Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc., purchased all of the capital stock of Milwaukee Insurance Group, Inc. and thereby acquired ownership and control of Milwaukee Safeguard Insurance Company. In 2001 MIG was dissolved and Milwaukee Safeguard became a directly held wholly owned subsidiary of Trinity Universal.

Milwaukee Safeguard does not have any employees, and all operations of the company are performed by Trinity Universal and other affiliates within the Unitrin, Inc. holding company pursuant to intercompany services and reinsurance agreements. The company is licensed in 13 states, and writes standard risk automobile, homeowners, fire, commercial liability, workers compensation, and related insurance lines. The company cedes 100% of its net insurance risks to Trinity Universal, and does not retain any policy-related risks for its own account.

The current examination determined that the company is in compliance with each of the recommendations of the prior examination. The current examination resulted in two recommendations summarized in section IX of this report, and did not make any reclassification of account balances or adjustments to surplus reported by the company in is year-end 2001 statutory financial statements. The examination determined that, as of December 31, 2001, the company had admitted assets of $11,885,686, liabilities of $1,443,737, and policyholders' surplus of $10,441,949.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Custody of Invested Assets—It is recommended that the company's custodial agreements be amended to expressly provide for the fiduciary obligations of the custodian and the custodian's specific obligations to indemnify the company, in conformity with the custodial agreement guidance provided by the NAIC Examiner's Handbook

2. Page 27 - Annual Statement Schedule D Reporting—It is recommended that the preparation of Schedule D include deletion of securities which have matured, sold, or otherwise disposed of, so as to ensure correct identification of the securities that are owned by the company and to eliminate securities that are no longer owned by the company, in compliance with NAIC Annual Statement Instructions—Property and Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Richard Harlow Anderson	Insurance Examiner
Tom Janke	Insurance Examiner
Cruz J. Flores	Insurance Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge